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Chapter 5

Creation and Creativity

Mark Hayes

While recognising the benefits of economic growth and that business enterprise can be a noble vocation, the general tenor of *Laudato Si'* is critical both of the performance of market economies and still more so of market economics.¹ The question arises whether this is consistent: is it possible to enjoy the benefits of advanced technology without the Schumpeterian process of 'creative destruction' that economists argue is the mainspring of technological innovation? Can we have the benefits without allowing entrepreneurs the freedom to introduce disruptive technologies that undermine their established competitors and destroy traditional livelihoods? How is this consistent with a commitment to protect employment and the stability of income needed for families to flourish? What would be the implications of giving the same priority in economic policy to the dignity, as well as the creativity, of the human person within a framework of the common good? What are the implications for business and economic policy of a personalist approach within an integral ecology?²

This chapter begins by considering the nature of economic growth and its apparent inconsistency with the message of *Laudato Si'*. The matter is more complex than first appears and involves the profound question of human agency: could history have been different, and if so, can the future take a different path? The following section considers the nature of the modern corporation and argues that the secular doctrine of the primacy of shareholder value

¹ Pope Francis, *Laudato Si': On Care for Our Common Home* (London: Catholic Truth Society, 2015), paragraph 109.

² 'Personalist' in the sense of Pope Benedict XVI, *Caritas in Veritate* (London: Catholic Truth Society, 2009), paragraphs 68, 76. An 'integral ecology' is one that includes the human and social dimensions beside the natural, c.f. *Laudato Si'*, chapter 4.

represents the idolatry named by Pope Francis in *Evangelii Gaudium*.³ Catholic Social Thought about the nature of human work helps to identify the type of legal reform needed to permit corporations to adopt a wider purpose consistent with an integral ecology. The privilege of incorporation must coincide with a recognition of business as a community of enterprise, including both shareholders and workers, which serves society as a whole through the responsible provision of wholesome goods and services.

The penultimate section turns to the nature of and remedies for the unemployment generated as a necessary by-product of economic growth, first briefly comparing the very different approaches of the UK and Denmark and their foundation in different theories of the economy. This leads on to the practical case of a corporation based explicitly on Catholic Social Thought, the Mondragon Corporation, and its approach to technical progress and technological unemployment. The conclusion is that the path of human progress is not determined by iron laws and that we are free to choose another: the problem is the need for an ecological conversion if we are to do so.

I. The Nature of Economic Growth

It does not require an ideological commitment to Marxism to recognise that in nearly all historical human societies, those with power and ability have organised affairs in such a way as to generate and capture a surplus for themselves. Initially this was by military means alone, as in the cattle raids between the extended families of the Bronze Age. Under the Roman Empire, the source of the surplus was more enduring, based on taxation and slavery. In the Middle Ages, the ownership of land, combined with increasingly productive agriculture, generated rents from a peasant population for the nobility and the Church.

³ Pope Francis, *Evangelii Gaudium* (London: Catholic Truth Society, 2013), paragraphs 55–56.

Throughout these centuries the rate of economic growth was very low – economic growth being conventionally measured as the growth of income per head of the population. The main source of economic growth is technical progress, or human creativity. Progress there certainly was, but the increased production (still predominantly agricultural) was matched by increases in population so that income per head remained stable for millennia. Thomas Malthus, the first Cambridge economist according to John Maynard Keynes, made his name by identifying the tension between the growth of population and of cultivable land.⁴ The ‘Malthusian trap’ appears to describe the experience of the ancient and medieval world: there is progress and total production and income increase, but population keeps pace. Furthermore, as was shown by David Ricardo, Malthus’s friend and interlocutor, diminishing returns to increasingly intensive cultivation lead both to a reduction in the wages of labour and the appropriation of an increasing share of income by landlords.⁵

Around 1500 in England, partly influenced by the Italian Renaissance, things began to change.⁶ A new spirit of competition and individual enterprise began to rise, which ultimately found its voice and moral legitimacy in Adam Smith’s *The Wealth of Nations*.⁷ The enclosure of common land undermined the traditional system of agriculture but allowed enterprising landlords to invest their increasing surplus in improvements which led to further gains in agricultural productivity. For the first time, the surplus was spent not simply on large households, luxurious living, the military, public buildings, and the Church, but on investment in physical capital embodying new techniques of production with a view to profit. So was ‘capitalism’ born, alongside the emergence of its mercantile variety across Europe as

⁴ Thomas Malthus, *An Essay on the Principle of Population* (1798; London: Routledge/Thoemmes Press, 1996).

⁵ David Ricardo, *On the Principles of Political Economy and Taxation* (1817; Cambridge: Cambridge University Press, 2015).

⁶ On the possible connection between the origins of capitalism and the civil market economy of the Italian Renaissance, see Stefano Zamagni, ‘Catholic Social Thought, Civil Economy, and the Spirit of Capitalism’, 2010.

⁷ Adam Smith, *The Wealth of Nations, Books I-III* (1776; London: Penguin Classics, 1986).

trade, banking, and industry grew in importance. The rising population, pushed by rural poverty and pulled by new opportunities, began to shift from the country to the cities.

Around 1750, there was a further change of tempo. Although Hero of Alexandria invented the steam engine in the 1st century AD, it was James Watt's perfection of the technology in 1769 that symbolised the start of a new era. The new technology allowed the harnessing of non-animal energy on an unprecedented scale, providing the foundation of our increased income today. We now use about ten times the energy per head that people did 400 years ago. It is no accident that the exponential growth of global income since 1750 matches the growth of CO₂ emissions. Although energy can be generated without emitting CO₂, in practice it was the abundance of coal in Northern England, combined with the acceptance of capitalist institutions and the control of trade routes by the British navy, that provided the conditions for the Industrial Revolution, which continues to this day. It was fossil fuel energy that allowed the world to break out of the Malthusian trap.

The lives of British working people were transformed. No longer tied to the land or masters as peasants, slaves, or journeymen, labour became free. Free to starve, as Marx pointed out, but also free to move to better-paid employment. Conversely, masters and landlords no longer felt responsible, even in principle, for their people. Under capitalist rules, an entrepreneur has the right to start up a new business in competition with existing producers, even if it puts them out of business and their workers out of jobs. This was precisely what the medieval guild system aimed to prevent. John Stuart Mill argued that competition was always in the best long-term interests of the poor and we hear similar arguments today.⁸ Sheila Ogilvie provides a representative modern economist's view that the guilds allowed privileged producers to capture monopoly rents at the expense of excluded

⁸ John Stuart Mill, *Principles of Political Economy* (1848; Oxford: Oxford University Press, 2008).

workers and consumers.⁹ Similar arguments are levelled against today's labour unions and Fair Trade organisations.

Joseph Schumpeter considered the essence of capitalism to be the 'gale of creative destruction' by which new entrants continually drive out the incumbents in an industry through competition based on technical innovation.¹⁰ Some 15% of jobs are currently destroyed and replaced by new jobs each year.¹¹ From hand-loom weavers and ostlers, through coal miners and typists, to taxi-drivers (Über) and hotel-keepers (AirBnB), the relentless pace of innovation and competition has brought a wider variety of goods and services at lower cost, increasing the income of society as a whole at the expense of insecurity and often great hardship for generations of displaced workers and their families.

How does *Laudato Si'* and the Church's social thought in general square with this brief sketch of economic history? Pope Francis notes that 'We are the beneficiaries of two centuries of enormous waves of change ... It is right to rejoice in these advances and to be excited by the immense possibilities which they continue to open up before us, for "science and technology are wonderful products of a God-given human creativity" ... Technology has remedied countless evils which used to harm and limit human beings'.¹² Yet he deplores the 'technocratic paradigm', suggesting that

Men and women have constantly intervened in nature, but for a long time this meant being in tune with and respecting the possibilities offered by the things themselves. It was a matter of receiving what nature itself allowed, as if from its own hand. Now, by contrast, we are the ones to lay our hands on things, attempting to extract everything possible from them while frequently ignoring

⁹ Sheila Ogilvie, 'The Economics of Guilds', *Journal of Economic Perspectives* 28, no. 4 (2014): 169–192.

¹⁰ Joseph Schumpeter, *Capitalism, Socialism and Democracy* (London: George Allen and Unwin, 1943).

¹¹ John Haltiwanger, Stefano Scarpetta, and Helena Schweiger, *Assessing Job Flows across Countries: The Role of Industry, Firm Size and Regulations*, Discussion Paper No. 2450, Bonn: Institute for the Study of Labor (IZA), November 2006, 10.

¹² *Laudato Si'*, paragraph 102.

or forgetting the reality in front of us. Human beings and material objects no longer extend a friendly hand to one another; the relationship has become confrontational. This has made it easy to accept the idea of infinite or unlimited growth, which proves so attractive to economists, financiers and experts in technology.¹³

The technocratic paradigm also tends to dominate economic and political life. The economy accepts every advance in technology with a view to profit, without concern for its potentially negative impact on human beings. Finance overwhelms the real economy.¹⁴

On the impact on working people, he writes:

[I]t is essential that “we continue to prioritize the goal of access to steady employment for everyone”, no matter the limited interests of business and dubious economic reasoning ... yet the orientation of the economy has favoured a kind of technological progress in which the costs of production are reduced by laying off workers and replacing them with machines ... economies of scale, especially in the agricultural sector, end up forcing smallholders to sell their land or to abandon their traditional crops.¹⁵

There appears a certain inconsistency in rejoicing in the fruits of technical progress while deploring the historical process by which it has come about. The reference to an earlier time when men and women worked in harmony with nature suggests nostalgia for an imaginary pre-capitalist medieval tranquillity. It was precisely the capitalist entrepreneur who laid his hands on things, seizing ‘hold of the naked elements of both nature and human nature’; one

¹³ *Laudato Si'*, paragraph 106.

¹⁴ *Laudato Si'*, paragraph 109.

¹⁵ *Laudato Si'*, paragraphs 127–129.

of the seminal histories of the Industrial Revolution is called '*The Unbound Prometheus*'.¹⁶ The rules of capitalism permit technical innovation for profit without concern for the negative impact on the human beings employed by competitors or made redundant when new technology is introduced. The displacement of small-scale agriculture and the loss of traditional livelihoods was the essence of the first English Agricultural Revolution and indeed of the process of industrialization and urbanization across the world ever since.

Accordingly these passages in *Laudato Si'* can be read as a rejection of capitalism itself, not simply of the particular form (dominated by large corporations and financial markets) that it takes at our present time. Was then the Industrial Revolution a mistake? Faith in the God of history seems to preclude this, while acknowledging the reality of evil in all human affairs before and since the Incarnation and indeed the possibility of apocalyptic destruction culminating in the Parousia. Yet there can be no moral culpability for burning coal or oil while the world remained unaware of its invisible effects on the climate; most societies, sooner or later, have addressed the tangible effects of atmospheric pollution, such as smog and acid rain, at least when they become intolerable for the rich. Could the changes from old to new types of work required by technical progress have been made purely by consent without forced unemployment? Is Pope Francis arguing there was another path not taken, a counterfactual that we cannot know?

Michael Novak suggests that we already have a natural experiment in the contrast between the histories of economic development in North and Latin America; in his analysis, the Church's greater influence over society in Latin America has not proved beneficial. He writes:

It is a sad commentary ... that so few theologians or religious leaders understand economics ... Many seem trapped in pre-capitalist modes of

¹⁶ *Laudato Si'*, paragraph 108; David Landes, *The Unbound Prometheus: technological change and industrial development in Western Europe from 1750 to the present* (Cambridge : Cambridge University Press, 1969).

thought. Few understand the laws of development, growth and production. Many swiftly reduce all morality to the morality of distribution. They demand jobs without comprehending how jobs are created. They demand the distribution of the world's goods without insight into how the store of the world's goods may be expanded. They desire ends without critical knowledge about means. They claim to be leaders without having mastered the techniques of human progress. Their ignorance deprives them of authority.¹⁷

More sympathetically, if not explicitly directed at the Church, Keynes writes:

[Looking forward] I see us free ... to return to some of the most sure and certain principles of religion and traditional virtue – that avarice is a vice, that the exaction of usury is a misdemeanour, and the love of money is detestable, that those walk most truly in the paths of virtue and sane wisdom who take least thought for the morrow ... But beware! The time for all this is not yet. For at least another hundred years we must pretend to ourselves and to everyone that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight.¹⁸

The task of transmuting human nature must not be confused with the task of managing it.¹⁹

Pope Francis does not claim expertise in economics for the Church and *Laudato Si'* can be taken simply as a protest against injustice, giving voice to 'the cry of the earth and the cry of

¹⁷ Michael Novak, *The Spirit of Democratic Capitalism*, 2nd edn. (London: Institute of Economic Affairs, 1991), 336.

¹⁸ John Maynard Keynes, 'Economic Possibilities for our Grandchildren'. In volume IX of *The Collected Writings of John Maynard Keynes*, 321–332 (1931; London: Macmillan for the Royal Economic Society, 1972), 330–331.

¹⁹ John Maynard Keynes, 'The General Theory of Employment, Interest and Money', volume VII of *The Collected Writings of John Maynard Keynes* (1936; London: Macmillan for the Royal Economic Society, 1973), 374.

the poor'. Yet the Church's insight into the human condition is more profound than the economists allow. The particular path the world has taken through history is the result of a myriad of individual decisions for good or ill. These decisions are certainly influenced by the market forces and general tendencies identified by economics, but are not determined by them. History is path-dependent; society is not recreated anew every day; decisions are always made within a context, yet they remain choices by moral agents. There can be no denying that the process of economic growth has brought both blessings and curses; it is a mixture of good and evil, as society itself. Human freedom means that the process could have been otherwise, even if the decisions of those with greater power do have more influence in shaping the future than those of others.

The lives of individuals are full of change and unwelcome necessities that are only partly the result of the wider economic forces at work, while shaped by the larger background. Even the movement of the rural population to the cities is usually a voluntary choice rather than the result of expropriation or eviction. Furthermore the larger background contains social and political forces that cannot be reduced to the economic, most importantly war, disease, and natural disaster. Thus it may not be so inconsistent to criticise the particular path which capitalist development has taken while accepting that such development is necessary and in the end desirable for society as a whole. We cannot know the path not taken, yet neither can the Church accept that God requires evil to be done that good may come of it. Looking forward from the present, the analysis of *Laudato Si'* does suggest some concrete principles for the reform of capitalism as it stands today, without which the system may destroy itself long before we 'solve the economic problem' as Keynes hoped in his *Economic Possibilities for our Grandchildren*. The fruitfulness of the document in this fashion suggests that its fundamental analysis of the human condition is sound, even if we cannot now discern how the past might have been different. In the next two sections we consider two specific

examples: how ecological conversion might extend to transnational corporations; and the imperative and implications of accepting that involuntary unemployment is generated by the market system and not by the individual.

II. Ecological Conversion, the Technocratic Paradigm and the Transnational Corporation

Although *Laudato Si'* is, as we have seen, critical of the historical path taken by capitalism, its main target is the technocratic paradigm characteristic of its present form. Technocracy manifests itself in both the public and private sector and particularly with the emergence over the last 50 years of the large corporation as the dominant actor in the process of transnational production and distribution. The major lacuna in the arguments of Novak and his followers, for liberty against the tyranny of the state, is the failure to recognise the tyranny of the corporation and the capital market. There is no prospect of ecological conversion without reform of the purpose and governance of the corporation.

The modern corporation has permitted a new idolatry of money to emerge in the form of the primacy of shareholder value. Directors and shareholders alike believe the corporation exists to maximise the profits of the shareholders, measured not even by the earnings of the business but by the increase in its share price. The corporation has become a thing, a machine for generating shareholder value, which may be passed from hand to hand, if another set of shareholders believe they can run the machine more profitably.

Those employed by such a corporation are indeed treated as mere cogs in the machine. The alienation of workers from their labour has been perfected: the sole end and purpose of their work is shareholder value. Even customer service is purely instrumental; in today's call centres, out-sourced workers in windowless offices are paid to process calls so as to maximise revenue under a service contract, monitored relentlessly by computers and

instant mechanical customer surveys, and penalised if they spend too much time solving genuine customer problems. Even directors and senior management are caught in the machine and have lost their autonomy, constrained to follow the imperatives of the market for corporate control. Even those who manage the investment institutions that exercise this power over corporations are themselves ranked on quarterly performance against an index. Most of those who benefit from all this, in terms of retirement or superannuation funds, are completely unaware of the source of their retirement incomes.

Romano Guardini captures this helplessness and is under no illusion as to the true name of the idol:

A peculiar vacancy appears in the actor ... [who] no longer seems master of the act; instead the act seems to pass through him ... there is a growing sense of there being no-one at all who acts, only a dumb, intangible, invisible, indefinable something which derides questioning. Its functions seem to be necessary, so the individual submits to them. Seemingly incomprehensible, it is simply accepted as a mystery ... and as such draws to itself those sentiments, in distorted form, which a man is meant to reserve for his fate, not to say, God.²⁰

It was not always this way, and it need not necessarily be so. The earliest corporations were monasteries and universities created by Papal or royal charter to allow the institutions to continue as their celibate members passed away. Long before the concept of limited liability was admitted for private companies, incorporation 'into a body' created a legal person capable of holding property in perpetuity and acting in its own name, distinct from its members. The modern corporation is truly non-human, a pure non-material embodiment of power and technology, yet its origins lie in a human association, a community of persons.

²⁰ Romano Guardini, *The End of the Modern World*, (London: Sheed and Ward, 1957), 125.

This chapter has so far made little reference to nature beyond the role of fossil fuels in climate change. Although individual and institutional consumption decisions are of great importance, the greater impact on the natural environment comes from the processes of production and distribution, which themselves largely determine the forms of consumption. We cannot hope for an ecological conversion in this sphere without addressing the nature of human work and the goals of the enterprises through which work is undertaken.

Pope Francis writes, in the tradition of the Church, of the necessity and dignity of human labour and its central part in the concept of an integral ecology. This contrasts with both the ancient association of work with servility and its modern association with disutility. He calls for a renewed understanding of the meaning of work and of the insight of St Benedict, revolutionary in his time and of perennial value today, that we find it in community:

Personal growth and sanctification came to be sought in the interplay of recollection and work. This way of experiencing work makes us more protective and respectful of the environment; it imbues our relationship to the world with a healthy sobriety ... We need to remember that men and women have “the capacity to improve their lot, to further their moral growth and to develop their spiritual endowments”. Work should be the setting for this rich personal growth, where many aspects of life enter into play: creativity, planning for the future, developing our talents, living out our values, relating to others, giving glory to God.²¹

Although some enlightened business leaders have attempted to establish such a culture within their enterprise, their experiences suggest that it is not possible for such a vision of work to be sustained without legal reform in the purpose and governance of corporate enterprise to

²¹ *Laudato Si'*, paragraphs 126–127.

dethrone the cult of shareholder primacy. Conversely, the basis of such reform has to be the recognition (once again) of the corporation as a community of enterprise, a vehicle through which human work is enabled and exercised in the service of the common good:

In fact, the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a **community of persons** who in various ways are endeavouring to satisfy their basic needs, and who form a particular group at the service of the whole of society.²²

A business cannot be considered only as a 'society of capital goods'; it is also a 'society of persons' in which people participate in different ways and with specific responsibilities, whether they supply the necessary capital for the company's activities or take part in such activities through their labour.²³

Without doubt, one of the greatest risks for businesses is that they are almost exclusively answerable to their investors, thereby limiting their social value ...

In recent years a new cosmopolitan class of *managers* has emerged, who are often answerable only to the shareholders generally consisting of anonymous funds which *de facto* determine their remuneration.²⁴

Many of the unacceptable aspects of corporate behaviour are the result of viewing the corporation as a money-making machine rather than a community of human enterprise. Economists use the term 'externality' to refer to costs imposed, but not paid for, by a firm. In the pursuit of shareholder value, businesses have externalised as many costs as possible. Some are transferred in the name of 'convenience' to the consumer, who wanders around a large warehouse looking for goods before taking them to a robotic check-out. Other costs are transferred to workers through 'flexible' contracts; only strictly necessary working time is

²² Pope John Paul II, *Centesimus Annus* (London: Catholic Truth Society, 1991), paragraph 35.

²³ *Centesimus Annus*, paragraph 43.

²⁴ *Caritas in Veritate*, paragraph 71.

paid for, with no room for breaks, meals or even conversation, while workers are expected, on the one hand to be available 24/7, and on the other to travel long distances at their own expense to work, sometimes for less than a full day. Secure, defined benefit pension schemes have been closed and the risk of investment in provision for old age transferred wholly to the worker and the state.

Pope Francis' main concern in *Laudato Si'* is with the environmental externalities: the 'immense pile of filth' arising from our failure to adopt a circular model of production.²⁵ This is what he means when he writes 'businesses profit by calculating and paying only a fraction of the costs involved' – not that all profit comes at the expense of others. 'Only when "the economic and social costs of using up shared environmental resources are recognized with transparency and fully borne by those who incur them, not by other peoples or future generations", can those actions be considered ethical'.²⁶

Yet 'The mindset which leaves no room for sincere concern for the environment is the same mindset which lacks concern for the inclusion of the most vulnerable members of society'.²⁷ The pursuit of shareholder value leaves no space, no breathing room, for people to take into account the interests of other people – especially so-called 'losers' – and the planet, unless this can be turned to profit. There is simply no room for gratuitousness.²⁸ This is not to deny that individuals are independently capable of greed and cruelty; it is the institutionalisation of those values under other names over a long period that is the issue. People are equally more than capable of responding to a positive business culture that *genuinely* values customers and co-workers, the community and the environment, rather than using transparent rhetoric to harness those impulses instrumentally.

²⁵ *Laudato Si'*, paragraphs 21–22.

²⁶ *Laudato Si'*, paragraph 51.

²⁷ *Laudato Si'*, paragraph 196.

²⁸ *Caritas in Veritate*, paragraph 34.

Business leaders have to be set free to pursue ‘a noble vocation, directed to producing wealth and improving our world’, rather than maximum shareholder value.²⁹ This is not the place to set out in detail the argument for the necessary legal changes. They include as a minimum a clear distinction between the corporation as a legal construct and the one or more enterprises it operates; a recognition of the natural right of membership of workers in the corporation that employs them; a duty of directors to pursue the success of the enterprise for which they are responsible, in the interests of all the members (shareholders *and* workers) and the common good; the prohibition of the hostile takeover and the consent of workers to takeovers recommended by the directors; and parent company liability for subsidiaries to ensure that responsibilities to stakeholders cannot be shirked by hiding behind a corporate veil. Without changes along these lines, there is no prospect of corporations not only adopting – this sometimes happens – but *sustaining* a wider purpose than the pursuit of shareholder value and operating in the interests of the common good.

III. The nature of unemployment and its remedies

The rules of capitalism limit the obligations of individuals and corporations to each other. Even the most enlightened enterprise is not expected to take into account the adverse effects of its operations on its competitors. Employment is never perfectly secure against competition from new technology, unless indeed such competition is prohibited. Yet without the spur of competition it is easy for incumbents to stagnate and neglect opportunities for innovation within their existing businesses. Managers may prefer an easy life to the challenges of responding to change in the needs of society; workers may refuse to change their working practices or demand unreasonable compensation for doing so.

One of the most serious deficiencies of mainstream economics is its minimisation of the implications of competition for workers and their families. The standard theory presents

²⁹ *Laudato Si'*, paragraph 129.

workers as making a trade-off between leisure and labour, choosing to work for money only if, and to the extent that, the attractions or utility they derive from material goods offset those from pursuing leisure activities. The implication is that labour is always fully employed; any observed 'unemployment' reflects a choice to engage in job-seeking. Modern job search and matching models implicitly assume that 'you can always flip burgers'; if people spend time between jobs it is because they are looking for a better match to their skills and experience and the accordingly higher income than the basic unskilled jobs that are always (it is asserted) immediately available. Workers are assumed to have an 'outside option', supported by past savings, other members of the household or off-market subsistence agriculture, if not unemployment benefit. If this alternative is too generous, unemployment will be higher, hence the prescription of benefit cuts to reduce unemployment.

In this 'Classical' model, unemployment is always a matter of the labour market, either of individual preferences as above or of some interference with competition that prevents the market wage settling at a level which matches the demand of employers for workers and the demand of workers for jobs. Such interferences include trades unions, employment protection laws, and minimum wages. Although often well-intentioned, such institutions create unemployment by reducing the incentives to take or offer employment, so it is argued. It was against this model that Keynes wrote:

the characteristics of the special case assumed by the Classical theory happen not to be those of the economic society in which we actually live, with the result that its teaching is misleading and disastrous if we attempt to apply it to the facts of experience.³⁰

In Keynes's theory of the market economy, the level of employment is ultimately determined by spending decisions, of which the most crucial is spending on new physical capital. In

³⁰ Keynes, *The General Theory*, 3.

Classical theory, as described above, the natural state of the economy is full employment and any unemployment is a matter of the preferences or deficiencies of workers or of imperfections in the labour market. In Keynesian theory, there is no natural tendency to full employment and unemployment is, in great part, a symptom of failure at the level of the system as a whole.

Our concern here is not with economic theory, let alone with the continuing dispute within the profession over whether Keynes was scientifically correct. The point is that there is a substantial body of economic thought arguing that unemployment is not usually the fault of the worker, but of the rules of the capitalist system. If we recognise the benefits to society of economic growth through Schumpeterian creative destruction, Keynes's analysis implies that we must also accept responsibility for the consequent unemployment and not simply blame the unemployed; this is broadly also the position of the Church.

The UK has experienced since 2010 an unprecedented assault on the dignity of the unemployed, including both active job-seekers and the incapacitated. Driven by a political agenda to reduce public spending and taxation, supported by hateful rhetoric of 'strivers and skivers', its legitimacy derives from the Classical theory: the experience of unemployment must be made unpleasant and humiliating if people are to take whatever jobs are available. Superficially, the policy can be claimed to have succeeded, since the unemployment rate (5% in 2016) has returned to the pre-2008 level, even if this compares unfavourably with the 2% of the 1960s and represents 1.6 million individual people unemployed. However, the reduction in the unemployment rate has been associated with a growth in low-skilled employment and low productivity growth.³¹ With university graduates working in bars or as care workers, unemployment has been transformed into underemployment, since holding out for a better job leads to withdrawal of benefits.

³¹ Bank of England, *Inflation Report*, February 2016, 25.

The UK has increasingly followed the US model of weak employment protection ('labour market flexibility'), low benefits and little or no help with redeployment. The Scandinavian countries offer a refreshing contrast, combining high flexibility with high benefits (68% of average previous income in Denmark – 90% for those on lower incomes – compared with 28% in the UK and US, providing much greater income security for families) and an active policy of re-training or work placements. This 'flexicurity' model continues to perform well despite the high unemployment created by the 2008 crash.³²

Denmark's experience confirms that unemployment is mainly not a matter of individual preferences or deficiencies. There is no need to punish the unemployed for their misfortune but it costs money to help them constructively. This is ultimately an ethical and political choice about the distribution of the surplus generated by economic growth. Denmark operates on a consensus that society as a whole has a responsibility to help the unemployed through the state, while the creation of new jobs is mainly left to capitalist enterprise.

A different, explicitly Catholic, approach internalizes the responsibilities of both job creation and redeployment within the corporation. Sixty years ago, a parish priest encouraged five students at the technical school he had founded to set up a business on the principles of Catholic Social Thought, as a corporation in which the members are the workers and capital is subordinated to labour. The workers are required to invest a substantial capital sum (now about €15,000, paid by instalments) and their wages are considered advances against their share of profits; 60% of net profits are placed in a common reserve and 10% allocated to the community. Workers receive a maximum return on their capital account of 7.5% pa. There is an elaborate system of industrial democracy, based on one member one vote, and a maximum pay differential of 6:1. They created a bank through which the local community financed their industrial investment in the early stages before the businesses became self-financing; a

³² Torben Andersen, 'A Flexicurity Labour Market in the Great Recession: The Case of Denmark', *De Economist* 160 (2012): 117–140.

social security, healthcare, and pension fund for their members and families; and a full range of educational and research institutions from primary school to university, open to the community, as well as industrial research centres.

The Mondragon Corporation of the Basque region of Spain now embodies 74,000 people worldwide, including one of Spain's largest supermarket chains (Eroski), as a confederation of 101 autonomous co-operatives with total sales of €11bn. Mondragon's industrial products include machine tools, aerospace and automotive components, construction and elevators, household durables, and medical equipment. One of their key strategic areas for development is 'Energy, Sustainability and Smart Cities'. The bank (Laboral Kutxa) remains worker-owned but is now a free-standing financial services business with total assets of €21bn.³³

From the outset at Mondragon there has been a commitment to technological progress and competitiveness in the global market, and to professional management within a structure based on subsidiarity. While the overall objective is to create good employment, this can only be done by providing competitive goods and services and through continuous investment in innovation, to create employment in new sectors as older ones become obsolete. It also requires financial discipline to address loss-making sectors. The hardest test of a co-operative enterprise is its response to economic crisis, whether global or in particular sectors. During the 1970s oil crisis, Mondragon maintained employment by accepting lower incomes in order to maintain competitive prices and switching workers between businesses. More recently, in 2013 the original 1956 co-operative was closed with the loss of 1,900 jobs and a write-off of €300m invested by the other co-operatives in an attempt to secure its future.³⁴ Within a year, 90% of workers had been redeployed to other co-operatives or had taken early retirement.

³³ Mondragon Corporation, *Annual Report*, Mondragón: 2015.

³⁴ Tobias Buck, 'A fine balance between solidarity and survival', *Financial Times*, 3 August 2015.

The remainder receive unemployment insurance from the social security fund while the group continues to seek a permanent solution for them.

Although the Mondragon co-operative group is generally much admired across the world, there has been little successful emulation so far.³⁵ The importance of its roots in Catholic Social Thought is generally overlooked or downplayed; Mondragon itself prefers to speak publicly of values rather than faith (their strapline is 'Humanity at Work'), yet has by no means distanced itself from its roots. Mondragon offers what appears a paradoxical mixture: of solidarity with individual profit and responsibility; of community and competitiveness; of private and common ownership; of the subordination of capital in the service of labour and of the authority of professional management; of commitment to a particular region with worldwide manufacturing and distribution; of traditional values and leading-edge technology.

Mondragon may be considered a (relatively) pure application of Catholic Social Thought to the questions raised by economic growth, particularly the insecurity and unemployment created by the process of creative destruction. Yet it is not a model that can be imposed. The contrast between the UK and Denmark illustrates that larger societies do also have real choices in how they respond to the human costs of economic growth.

IV. Conclusion

For economic growth – the growth of income per head – to take place, society must generate a surplus and invest this in new technology, creating profitable new goods and occupations while others become obsolete. Historically economic growth has come about through a process of creative destruction, by which enterprising innovators are free to compete without regard to the adverse consequences for established producers. Even if society's consequent higher income leads to higher total employment, the insecurity and redundancy created by

³⁵ Mondragon is not without critics, see Sharryn Kasmir, *The Myth of Mondragón: Cooperatives, Politics and Working-Class Life in a Basque Town* (Albany: State University of New York Press, 1996).

competition creates hardship for workers and their families. Furthermore, as the capitalist mindset takes hold, it is often easier to make profit, not through innovation, but at the expense of workers, the community and the environment, by externalising part of the true costs of production. An ethical producer, who recognises these true costs, can easily be undercut by a less scrupulous competitor. Conversely the consumer cannot usually distinguish whether a product is better value because of superior technology or because of inferior working conditions and environmental degradation.

Society can and must change, if humanity is to survive climate change, but the necessary change demands a conversion that recognises the integral ecology we inhabit. It is possible that the pace of economic growth will slow if its true costs to the earth and the poor are internalised by business. The external costs of fossil-fuel energy are beginning to be accepted. Some change can be achieved at the social level, through legislation: a panoply of environmental regulations and taxes awaits the political will for their implementation; corporations must be reformed to dethrone the idol of shareholder value; the consequences of creative destruction for families can be mitigated by a more enlightened attitude towards unemployment and a more equitable sharing of the costs of economic growth through more generous and constructive forms of unemployment support. A deeper conversion could see more corporations along the lines of Mondragon. The power of that model is the internalisation of both technical progress and redeployment of labour from old to new sectors, yet it requires a degree of personal commitment and solidarity rarely encountered.

As Pope Francis writes, once again quoting Guardini: 'This task "will make such tremendous demands of man that he could never achieve it by individual initiative or even by the united effort of men bred in an individualistic way. The work of dominating the world

calls for a union of skills and a unity of achievement that can only grow from quite a different attitude”’.³⁶

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³⁶ *Laudato Si*’, paragraph 219.

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